

# **CAPITAL PLANNING ADVISORY BOARD**

## **Minutes of the 3rd Meeting of the 2002 Calendar Year**

**December 19, 2002**

The 3rd meeting of the Capital Planning Advisory Board was held on Thursday, December 19, 2002, at 10:00 AM, in Room 113 of the Capitol Annex. Representative Perry Clark, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Perry Clark, Chair; Bill Hintze, Vice Chair; Senators Virgil Moore and Albert Robinson; James Deckard, Sherron Jackson, Lou Karibo, William May, Glenn Mitchell, Norma Northern, and Garlan Vanhook.

Guests: Armond Russ, Commissioner, and Jack Morris, Director, Division of Real Properties, Department for Facilities Management.

LRC Staff: Pat Ingram, Staff Administrator; Mary Lynn Collins; Nancy Osborne; and Dawn Groves.

Chairman Clark began the meeting by welcoming three new Judicial Branch appointees to the Board - James Deckard, William May, III and Judge William Wehr.

Chairman Clark asked Staff Administrator Pat Ingram to read aloud resolutions honoring former members Susan Clary and Judge Edwin White, who had served on the Board since it was established in 1990. Mr. Deckard's motion to approve both resolutions was seconded by Mr. Karibo and approved by voice vote.

Mr. Jackson's motion to approve the minutes of the September 20, 2002, meeting was seconded by Ms. Northern and approved by voice vote.

Chairman Clark asked Ms. Ingram to review the draft instructions for the 2004-2010 agency plans. Ms. Ingram began with a brief review of the timeline for the planning process. She said the instructions for the planning process apply to all state agencies. The plans will contain three sections. The Background Section provides an understanding of the agency and a context for reviewing its capital needs and proposals; the Plan Section is to focus on capital-related needs and how the agency proposes to address them; and the Ancillary Records section addresses items that apply only to a few agencies.

Ms. Ingram noted that the Background Section includes two narratives. One describes the agency's mission and its programs. The second describes how the facility's management and maintenance functions are handled. Also in this section, each agency is to identify capital-related reports that have been recently submitted, are currently underway, or are to be undertaken in 2002-04. Ms. Ingram said a major component of the Background Section addresses the agency's current physical plant (space administered or occupied by the agency). Two new items required in this plan are a listing of non-state-owned facilities located on state-owned property, and an itemization of state-owned aircraft. The final component in the Background section is a report on the status of recently completed or ongoing projects.

Ms. Ingram next reviewed the Plan Section. The Agency Overview includes a narrative addressing how the agency proposes to address major capital-related needs and issues, a financial summary of the proposed projects, and two listings of those projects based on the proposed source of funding. Ms. Ingram said there are separate listings because the Board primarily focuses on projects involving the General Fund (cash or debt) when making its recommendations.

Ms. Ingram said for most agencies, the bulk of the plan is the forms that provide information on its proposed capital projects meeting any of the following criteria: 1) construction costing \$400,000 or more (including new construction, renovation or additions), 2) equipment items costing \$100,000 or more, 3) information technology systems costing \$400,000 or more, 4) grant or loan programs listed in the capital budget, and 5) court projects where the annual use allowance payment is \$200,000 or more. Ms. Ingram said there are several general information requirements that apply to any project submitted, and other specific information requirements based on the type of project.

Ms. Ingram noted also in the Plan section, the agency is to outline its needs for additional space that would be addressed by something other than a capital construction project, as well as to identify any anticipated reductions in agency-administered or agency-occupied space.

According to Ms. Ingram, the four items in the Ancillary Records Section are 1) a listing of minor projects (less than \$400,000 each) for agencies that administer state-owned property, 2) a prioritized list of projects that are proposed to be financed by agency bonds, 3) a report from agencies who have authorization to use facility-generated or off-budget revenues for their capital-related needs, and 4) the identification of projects that are submitted in multiple agency plans.

Ms. Ingram recognized the LRC Office for Computing and Information Technology (OCIT) staff for their hard work in developing the new web-based capital planning application which will help facilitate submission of agency plans.

Representative Clark noted that he and the Board also thank the OCIT staff for their hard work on this project.

Mr. Jackson's motion to approve the 2004-2010 agency capital planning instructions was seconded by Mr. Mitchell and approved by voice vote.

Chairman Clark stated that every two years the board struggles with how to assess and make recommendations on the various projects that are proposed by the agencies. He asked Ms. Ingram to review for the Board the set of scoring/project evaluation criteria that has been developed by staff based on their review of systems used in other states.

Ms. Ingram said the intent is for the system to be used as a tool by the Board in developing its project recommendations, not as a way to automatically generate those recommendations. Ms. Ingram noted the Board's statewide capital plan typically contains two types of recommendations. The first addresses capital-related issues. The second is for specific projects the Board believes should be funded in the upcoming biennial budget. The proposed scoring and evaluation system would be an additional input into the process of developing the project recommendations. It is expected that previous sources of information would also continue to be used. They include information from the agency plans and presentations from the agencies, as well as recommendations from the Council on Postsecondary Education (for projects of the postsecondary institutions) and from the state's Chief Information Officer (for information technology projects).

Ms. Ingram said the scoring system would be used to evaluate only construction projects that involve the General Fund (cash or bonds) and that are proposed to be undertaken in the first biennium of the planning period (2004-2006). Capital Planning staff would review the projects and assign points based on the information as reported by the agency in its plan. The score for the project would be the total points scored on all of the criteria. In drafting the system, an effort was made to describe the factors so points could be assigned with minimal subjectivity. There was also an effort to avoid programmatic issues in developing the criteria. Two factors would be considered critical criteria. Those are: 1) projects that address life safety issues for which the agency has been officially cited by a licensing or regulatory entity and for which there would be a penalty for non-compliance and 2) projects where the need has been identified in an order or agreement entered into by the state under the auspices of state or federal courts or a regulatory agency. Such projects would be considered urgent and unavoidable and receive the maximum points possible. Otherwise points will be awarded on whether and how a project is determined to address the following criteria: 1) protecting investment in plant; 2) safety concerns, security issues, other government mandates; 3) the cabinet or agency priority ranking; 4) user or nonstate financing, 5) primary use of the facility or space; 6) relationship to prior authorized projects; 7) savings or efficiencies, and 8) various other factors such as whether the facility has an historical destination. Ms. Ingram

said the agency planning instructions, as approved, call for agencies to report data related to the criteria just described.

Mr. Mitchell asked if the scoring criteria would be provided to the agencies as part of the instructions. He said anything that could be done to encourage agencies to address items the Board would be reviewing would be helpful. Ms. Ingram replied the criteria would be incorporated into the instructions. Mr. Mitchell's motion to approve the recommended criteria was seconded by Mr. Jackson and approved by voice vote.

Chairman Clark stated that in its last plan the Board made recommendations that were the basis of five pieces of legislation introduced in the 2002 General Assembly session, but only one of those actually passed. Chairman Clark suggested the Board might want to go on record again in support of the recommendations that were the basis for the remaining legislation. He asked Ms. Ingram to review those items. Ms. Ingram said the legislation that did pass related to the role and responsibilities of the Department for Facilities Management, and put into statute the requirement that the Department maintain a statewide facilities database for the Executive Branch.

Ms. Ingram then reviewed the recommendations on which the other four pieces of legislation were based. The first recommendation addressed the Board's concerns about projects being funded in phases. The intent was that when such funding is proposed, there should be a clear statement of what each phase is intended to accomplish. Additionally, there should be a commitment that such funding is enough for a viable project even if amounts for additional phases are not forthcoming. For the 2003 Session, BR 31 has been prefiled to again address this recommendation.

The second recommendation addressed the Board's interest in finding ways to help state agencies relocate when that would be in the best interest of state government efficiency and effectiveness. Allowing allocations from the Capital Construction and Equipment Purchase Contingency Fund for moving expenses had been identified as one way to do this. BR 32, which would permit such allocations, has been pre-filed for the 2003 Session. Ms. Ingram said the Board was reminded of the importance of this recommendation and the related legislation during the Finance Cabinet's presentation of the State Leasing and Space Utilization Study at the July meeting.

The third recommendation was based on the Board's interest in updating the definition of what constitutes an "information technology system" for capital planning and capital budgeting purposes. The current definition addresses only hardware costs whereas the recommended definition, which is supported by the state's chief information officer, would include all costs involved in the deployment of a system. These cost would include hardware, software, professional services, and digital data products. BR 395 has been prefiled in this regard.

Ms. Ingram said the final recommendation addressed a long-standing interest of the Board. It called for the General Assembly to enact legislation to establish programs to fund major capital renewal and maintenance needs of state facilities. HB 444 as introduced in the 2002 Session would have established a mechanism to fund capital renewal accounts for both new and existing facilities. The bill that has been prefiled for the 2003 Session (BR 72) would establish a program to address only new facilities. Eliminating the provisions establishing a program for existing facilities was intended to make the proposal more easily understood and to reduce the fiscal impact.

Noting that the postsecondary institutions often raise private funds to construct facilities, Mr. Jackson asked if the state would fund the capital renewal account for these facilities under BR 72. Ms. Ingram said the prefiled bill is equivalent to HB 444 from the 2002 Session, which required deposits for the account to come from the same source as the original funding for the building. Mr. Jackson said the General Assembly and the Executive Branch have asked the institutions to raise funds for new facilities; the institutions should not be penalized for doing this by having to ask the donor to also fund the capital renewal account. Ms. Ingram explained that deposits to the account could be from the institution's restricted funds and would not necessarily have to come from a private donor. Mr. Jackson explained that restricted funds are tuition and fees, which are already used for faculty salaries and other operating expenses.

Mr. Mitchell said he has a philosophical difference with this approach presented in BR 72 and instead believes the General Assembly should provide a maintenance fund for existing facilities. Then as the new facilities come online, they would automatically be brought in to the base upon which the appropriations need would be calculated. Mr. Mitchell said this approach would create a fund and set a target range for the funding level. This would be a way of raising the consciousness of decision-makers that a certain amount of money should be set aside for building maintenance. This is similar to the function of the Budget Reserve Trust Fund. Chairman Clark said it would not be an easy sell, but the Board does need to draw attention to the need and perhaps further discussion is needed on this particular area.

Ms. Northern's motion to support BR 31, BR 32, and BR 395 was seconded by Mr. Karibo and approved by voice vote.

Mr. Vanhook noted that while BR 72 does not affect the Judicial Branch, it does address the same issues that are being dealt with regarding court facilities. That is, the lack of a mechanism to address needs before they become critical and very expensive. He said this is an important issue, and he hopes the Board will stay committed to further discussion on it. Chairman Clark agreed that this is an issue of importance to state government and to the taxpayers. He said further discussion would be held in order to determine the best approach to recommend.

Next, for discussion was the Budget Reserve Trust Fund (BRTF). Chairman Clark said the Board has always gone on record in support of full funding of the BRTF and suggested that the Board again recommend to the legislative and executive branches that full funding of the BRTF should be a top priority. Mr. Karibo seconded Mr. Mitchell's motion to approve the recommendation. The motion carried by voice vote.

Chairman Clark then called on Mr. Armond Russ, Commissioner, Department for Facilities Management, and Mr. Jack Morris, Director, Division of Real Properties, to update the Board on the Finance Cabinet's State Leasing and Space Utilization Study. Commissioner Russ noted that space utilization has been of interest to him for many years, and the Department has been working to implement improvements in this area incrementally. He said it is difficult to take something like this that impacts all state agencies and try to implement it from a single department.

Commissioner Russ said former Finance Secretary Kevin Flanery felt this was an important issue that needed to be studied in depth by a task force of officials from state agencies that lease office space. The effort only includes office space, not special use space like parks or prisons. Even though its final report has not been issued, some of the task force recommendations were included in a recent Executive Order outlining actions to be taken to address the state's budget problems.

Commissioner Russ said that Franklin County must be considered separately due to the large amount of space the state leases in this market. He noted if state government grows too fast, office space becomes tight and rents go up dramatically. Conversely if the state builds its own space too fast or too extensively, local vendors will be discouraged which creates the same problem. Based on the "Fantus Study" completed in 1997, a goal had been set to reduce the amount of state-leased space in Frankfort to 15 percent of total office space occupied by state government in the community. The current figure is 31 percent. The average cost of leased space is \$7.87 per SF, while the cost of state-owned space is \$7.84 per SF. (Maintenance costs for the state-owned space include many items not relevant to the leased space. They include "monument" space, extensive grounds, etc.) Commissioner Russ noted the state owns sufficient land to construct 1,000,000 SF of new office space if and when that becomes feasible.

Looking statewide, Commissioner Russ said the task force developed short, intermediate, and long-term approaches for improved office space utilization, with the focus being to reduce the state's leasing costs. Relative to short term approaches, he said suggestions for actions that could bring "quick wins" were distributed to cabinets and agencies in September 2002. They included items such as reviewing utility bills and service contracts for potential savings, better utilization of state-owned conference rooms, and cleaning out areas to provide for more usable space. A report of actual dollar savings from the "quick wins" is to be available in June 2003 – at the end of the fiscal year.

Commissioner Russ explained that intermediate term objectives are to identify and implement actions that can be accomplished within the current biennium such as reductions and/or consolidations of office space within individual counties. He noted that when separate offices exist, there is necessarily duplication of some types of space such as reception areas, conference rooms, smoking rooms, and rest rooms.

Commissioner Russ said the task force is finding that current space utilization often does not reflect the initial plan. Updating the space requirements based on program changes and staffing increases often results in an agency being determined to need more rather than less space. Commissioner Russ stressed that it is not an easy process to consolidate office space. Some counties may not have properties of sufficient size available to accommodate consolidated agencies. Additionally, agencies often lack sufficient funds to pay for moving expenses or to purchase the more efficient modular workstations.

Commissioner Russ said the Task Force has identified a total of 44 properties in 23 counties as possible consolidation opportunities, and the Division of Real Properties has begun to analyze these opportunities. To date, 10 leases in seven counties have been cancelled, resulting in annual savings of over \$372,016. In addition to the lease cancellations, 32 leased properties in 21 counties currently have a plan in place for optimizing space utilization. This primarily relates to a previously-begun effort in this regard by the Cabinet for Families and Children.

Commissioner Russ next reviewed the long-term objectives set out by the task force. They include centralized planning and forecasting of space needs, regionalization of state offices, use of space efficient workstations, maximizing the use of “e-government”, and hoteling (shared use of offices for those who are not routinely in the office). Regarding centralized planning, Commissioner Russ said DFM has traditionally just responded to agency initiated requests, but is looking now to work with the agencies to identify long and short term future needs. He said regionalization is a controversial concept, and DFM is not planning to actually implement it at this point, but does believe the concept needs to be discussed. He said agencies indicate that with the advent of electronic delivery systems, better roads, and better ways to communicate, they may not, in fact, need to have offices in every county. Better services might be provided on a regional level where specialized staff could be made available, rather than having general staff in every county. This could save money on both personnel and space costs.

Commissioner Russ said the task force is compiling a comprehensive report of its findings. He noted that the December 5 Executive Order addressing the state’s budget problems has already incorporated some of those findings on short and intermediate range actions. One action goes further than the Task Force in that there is a moratorium on the processing of any new leases or changes that would increase costs.

Commissioner Russ thanked the Board for its help and encouragement in these efforts to address leasing and space utilization issues. He also recognized the agencies for their help in this regard.

Senator Robinson said the concept of "hoteling" should have been implemented a long time ago; however, the issue of consolidating to regionalize services is very controversial. He encouraged Commissioner Russ to look not only at cost savings to the state, but also to consider the additional costs and burdens that might be imposed on citizens using the services that are in consolidated locations.

Ms. Ingram added that one of the capital planning forms calls for agencies to identify space needs for the upcoming planning period. DFM was given a draft copy of this form for comments and suggestions so that could also assist with their needs.

Senator Robinson asked for clarification on the future of BR 72. Both he and Mr. Mitchell indicated that even if the Board is not in complete agreement about the approach that should be taken, it would be appropriate to move forward with the bill in an attempt to generate some discussion of this important issue during the upcoming Session.

There being no further business, the meeting adjourned was at 11:28 a.m.